

## **Annexure A**

### **Members of the Committee**

<b>1</b>	Principal Secretary, Finance Department [Reforms]	Chairman.
<b>2</b>	Commissioner, Mumbai Municipal Corporation.	Member.
<b>3</b>	Commissioner of Sales Tax, Maharashtra State, Mumbai.	Member.
<b>4</b>	Divisional Commissioner, Aurangabad Division.	Member.
<b>5</b>	Commissioner, Pune Municipal Corporation.	Member.
<b>6</b>	Commissioner, Thane Municipal Corporation.	Member.
<b>7</b>	Commissioner, Nashik Municipal Corporation.	Member.
<b>8</b>	Commissioner and Director, Municipal Administration.	Member

### **Meeting dates**

<b>1)</b>	<b>2<sup>nd</sup> January 2006</b>
<b>2)</b>	<b>16<sup>th</sup> January 2006</b>
<b>3)</b>	<b>12<sup>th</sup> April 2006</b>
<b>4)</b>	<b>20<sup>th</sup> April 2006</b>
<b>5)</b>	<b>28<sup>th</sup> April 2006</b>
<b>6)</b>	<b>12<sup>th</sup> May 2006</b>
<b>7)</b>	<b>20<sup>th</sup> May 2006</b>
<b>Chamber of the Principal Secretary [Reforms], Finance Department, Mantralaya, Mumbai 32</b>	

## **Annexure B**

### **The observations of BMC on the report of the Study Group**

1. The crucial importance of Octroi in the finances of the corporation is reflected in its percentage contribution to the total revenue of the Corporation, which is well over 40%.
2. Currently Octroi is the only buoyant source of revenue for the Corporation showing a robust annual growth of 15% per annum.
3. Any substitute levy must provide for accrual of equivalent amount of revenues to the Corporation, display similar or better buoyancy and preserve the financial autonomy of the Corporation. This implies that the revenues must flow to this Corporation as a matter of right and there must not be any need for the Corporation to approach the Govt. time and again for release of funds. It also implies that, to the extent feasible, the Corporation itself levies, collects and appropriates the substitute tax.
4. The substitute levy should therefore have the following characteristics :
  - (a) The alternative source of revenue should be adequate to make up the loss caused by abolition of Octroi.
  - (b) It should be buoyant and should have inbuilt potential for sustained annual growth of at least 15% per annum.
  - (c) It should be capable of being administered by this Corporation to the extent feasible, in terms of levy, collection and appropriation.
  - (d) The burden of tax, as far as possible should fall broadly on the same set of people as that of Octroi.
5. On all these counts, this Corporation has reservations about the following alternatives suggested in the report :
  - 1) Additional levy on VAT :
  - 2) Profession Tax;
  - 3) Increase in Property Tax.
- 6 (i) The alternative of additional levy on VAT, suggested in the report has not been examined in detail as far as growth in the revenue yield is concerned. Moreover, unlike octroi, the rate of such additional levy on VAT will be fixed by the State Government and this Corporation will have no freedom to fix the rate of alternative levy, which will adversely affect the financial independence of the Urban Local Bodies, (ULBs) which will run contrary to the letter and spirit of the 74<sup>th</sup> Amendment to the Constitution.

As regards, the incidence of additional VAT on the inhabitants of the rural areas of the State, it does not seem to be correct to transfer the burden of those living in Mumbai to the rest of the State by levying additional VAT all over the State.

The observation in the report that additional VAT will have no adverse effect on the competitiveness of local trade and

industry, both in intra and interstate marketing vis-a-vis trade and industry in other States also does not seem to be correct.

- (ii) The alternative of Profession Tax, which is a Direct Tax, has also been suggested in the Report. As per Annexure- E, of the Report, the collection of Profession Tax for Mumbai during the financial year 2004-2005 was a meager Rs. 418.21 crores and therefore, it cannot be regarded as an adequate substitute for octroi. Moreover, Profession Tax lacks buoyancy and cannot be expected to grow at a rate of 15% per annum. Apart from this, the additional levy of profession tax for the ULBs on a large base of tax payers is likely to create discontent amongst a larger number of tax payers as compared to the Octroi.
- (iii) The alternative of property tax increase, suggested in the report, also cannot be regarded as an alternative to the Octroi. It may be noted that the Property Tax revenue collected during the last financial year 2005-2006 was Rs.1400 crores excluding State Taxes, as compared to the octroi collection of Rs.2852 crores during the financial year 2005-2006.

It may be noted that there is no final decision so far regarding levy of property tax on capital-value-base and therefore, the expected income from the new system cannot be visualized at this stage. As we understand, the government intends to give the corporation the option of levying property tax either on the basis of capital value or rateable value. It is not certain whether or when the Corporation, faced with these two alternatives, would go in for Capital value-based assessment. The current rateable- value -based - assessment has no buoyancy and even if the Capital value based method of assessment is adopted, the revision of assessment, would take place only once in five years. So Property Tax, even after the possible switch over to the Capital value based assessment, would not have the annual growth of 15% which is seen in Octroi.

As regards the projected increase in revenue from the property tax in Mumbai following the introduction of capital value-based-assessment, one needs to remember that even though in Mumbai the real estate prices may be comparable to those prevailing in developed countries because of the scarcity of land, the average income level of the citizens in Mumbai is around 1/10th of the average income level of their counterparts in the developed countries, and therefore, any comparison in the matter of rate of property tax with the developed countries is not practicable. The proposal for increase in the rate of property tax, to bring it on par with the developed countries, is going to be strongly resisted in Mumbai and is unlikely to be acceptable to an elected body like the Corporation.

Even if we assume that the proposal to abolish octroi will be brought in force only after the legislation regarding assessment of properties on the basis of capital value is enacted, it will be impractical to expect any substantial increase in the net revenue from the property tax because of the fact that the rate of property tax will have to be kept

low to ensure acceptance of this levy by the elected body and the citizens of Mumbai.

7. It must be noted that even these alternative levies will affect the competitiveness of the manufacturers and merchants in Maharashtra.

8. Considering the premier status of this City and the rising expectations of the citizens of this City, there is an urgent need of generating more revenues for the corporation, in order to meet the ever growing expenditure on the civic services and amenities provided to the citizens. With rise in population, urgent investments in infrastructure are required and this Corporation has to immediately undertake various mega projects in this metropolis to give better services to the citizens, some of which are as follows:

- 1) Middle-Vaitarna Water Supply Projects Rs.1600 Crores.
- 2) Mumbai Sewage Disposal Projects. Rs. 2400 Crores.
- 3) Brihanmumbai Storm Water Drainage Project Rs. 1800 Crores.

In order to implement the above projects successfully, the Corporation is seeking financial assistance under the JNNURM under which it will have to raise minimum 50% of the project cost by way of loan or Bonds. The said projects have already been submitted to the Central Government for approval. It is pertinent to mention here that MCGM has gone in for rating itself through reputed Rating Agencies like CARE & CRISIL for the purpose of raising money through Bonds and its (AA) Rating done by CARE is largely based on the robustness and buoyancy of revenues that the MCGM receives from Octroi. If octroi is abolished, the credit worthiness of this Corporation in the market would be seriously hampered and it would be difficult to raise loan for these three projects, as also future projects.

Abolition of octroi and uncertainty about the success and acceptability of the suggested alternatives will jeopardize the creditworthiness of this Corporation to raise loan, which will definitely hamper investments that this Corporation has to make urgently to transform Mumbai into a World class city.

9. It would also be pertinent to mention that there are about 2200 permanent employees employed by this Corporation for collection of Octroi. The problem of surplus staff would be another challenge before this Corporation, which is not going to be easy.

10. Considering the dependence of this Corporation on the revenue generated by way of Octroi, if at all octroi is to be abolished and a new tax or levy is to be introduced, such an experiment be made in small metropolis, where the merits and demerits of the proposed new system could be examined in the process of implementation itself and after removing the demerits, the said system could be implemented in this Corporation in a phased manner, which would safeguard the interests of the metropolis.

11. The report perhaps assumes that all these recommendations will be palatable to all the stakeholders and they will find favour with the elected representatives resulting in all the recommended legislative changes and that the process of implementing these recommendations will not be hit by any litigations. In our view these

recommendations would affect a much larger cross-section of citizens and hence are likely to be resisted.

To sum up, in view of the foregoing, unless we are in a position to find any proven alternative that would match or better the octroi in terms of revenue yield, buoyancy and degree of self control to vary the rate of levy for raising the necessary resources, it would not be advisable to consider abolition of octroi.

Johny Joseph  
Municipal Commissioner,  
Mumbai Municipal Corporation

## **Annexure - C**

**Net Octroi Receipts : CAGR : Per Capita Receipts : Projections (Figures in Rs. Lakh)**

Item	Mumbai	Thane	Navi-Mumbai	Kalyan-Dombivali	Ulhasnagar	Bhivandi-Nizampur	Mira-Bhayander	Pune	Pimpri-Chinchwad	Solapur	Kolhapur	Sangli-Miraj-Kupwad	Nashik
2000-01	161936	16111	6677	7020	4515	6067	2087	23401	15360	4437	3925	2173	12554
2001-02	156108	15695	7450	7228	4377	6858	2245	24528	15507	4859	4131	2167	12416
2002-03	200376	17211	6923	6128	5165	8538	2182	26849	26603	5051	4359	2174	14530
2003-04	217085	18219	8682	5603	5574	6795	2638	29205	28774	5658	4581	2233	17586
2004-05	245009	22071	9448	6047	6353	7682	3192	35838	37028	6100	4892	2702	21318
COMPOUNDED ANNUAL GROWTH RATE (CAGR)	10.91	8.19	9.07	-3.66	8.91	6.08	11.21	11.24	24.60	8.28	5.66	5.60	14.15
PROJECTION FOR 2005-06	271733	23878	10305	5826	6919	8149	3550	39868	46139	6605	5169	2853	24335
PROJECTION FOR 2006-07	301371	25833	11239	5612	7536	8644	3948	44350	57491	7152	5461	3013	27780
POPULATION AS PER 2001	11914398	1261517	703947	1193266	472943	598703	520301	2540069	1006417	833037	485183	436639	1076967
PER CAPITA OCTROI INCOME 2004-05 (Rs.)	2056.41	1749.56	1342.15	506.76	1343.29	1283.11	613.49	1410.91	3679.19	732.26	1008.28	618.82	1979.45
COST OF COLLECTION 2004-05 (Rs. Lakh)	3537	840	Figure not available	264.96	Figure not available	Figure not available	Figure not available	961	796.67	263.59	207.67	111.87	375
%	1.44	3.81		4.38				2.68	2.15		4.25	4.14	1.76

**Annexure C continued**

Item	Malegaon	Jalgaon	Dhule	Ahmednagar	Aurangabad	Nanded	Amravati	Akola	Nagpur	Total Maharashtra	Other Than Mumbai
2000-01	1388	2248	1069	1355	4796	1551	1251	1339	10662	291922	129986
2001-02	1493	2392	1150	1446	5105	1810	1946	1479	11549	291939	135831
2002-03	1949	3033	1458	1833	5704	1970	2376	2649	12534	359595	159219
2003-04	1766	2834	1361	1711	6281	1988	3240	2122	13306	387242	170157
2004-05	2221	3000	1461	1975	7300	1955	3244	2170	15247	446253	201244
COMPOUNDED ANNUAL GROWTH RATE (CAGR)	12.47	7.48	8.12	9.88	11.07	5.96	26.90	12.83	9.35		11.55
PROJECTION FOR 2005-06	2498	3224	1580	2170	8108	2071	4117	2448	16673	498218	224481
PROJECTION FOR 2006-07	2809	3466	1708	2384	9006	2195	5224	2762	18233	557219	250401
POPULATION AS PER 2001	409190	368579	341473	3E+05	872667	430598	549370	4E+05	2051320	28774017	16859619
PER CAPITA OCTROI INCOME 2004-05 (Rs.)	542.78	813.94	427.85	642.37	836.52	454.02	590.49	542.53	743.28	1550.89	1193.65
COST OF COLLECTION 2004-05 (Rs. Lakh)	135.22	Figure not available	Figure not available	Figure not available	Figure not available	163.44	7.2	155	49	Figure not available	Figure not available
%	6.09								0.32		

## Annexure D

Sr.No.	Name of the Corporation	Estimated Octroi Revenue for 2006-07	50% of Octroi Revenue to be compensated through property tax reforms.	Property Tax Demand 2004-05 (excluding arrears) (in Rs, Lakh)	Property tax demand for 2006-07 (estimated)	Percentage Increase required in property tax for compensation of 50% Octroi
1	2	3	4	5	6	7
1	Mumbai	301371	150686	133281	146942	103
2	Thane	25833	12917	6096	6721	192
3	Navi Mumbai	11239	5620	6081	6704	84
4	Kalyan-Dombivali	5612	2806	5037	5553	51
5	Ulhasnagar	7536	3768	1862	2053	184
6	Bhiwandi-Nizampur	8644	4322	870	959	451
7	Mira-Bhayandar	3948	1974	2740	3021	65
8	Pune	44350	22175	13123	14468	153
9	Pimpri-Chinchwad	57491	28746	2665	2938	978
10	Solapur	7152	3576	1111	1225	292
11	Kolhapur	5461	2731	1523	1679	163
12	Sangli -Miraj	3013	1507	914	1008	150
13	Nashik	27780	13890	3104	3422	406
14	Malegaon	2809	1405	189	208	674
15	Jalgaon	3466	1733	1187	1309	132
16	Dhule	1708	854	256	282	303
17	Ahmednagar	2384	1192	971	1071	111
18	Aurangabad	9006	4503	1276	1407	320
19	Nanded	2195	1098	485	535	205
20	Amravati	5224	2612	644	710	368
21	Akola	2762	1381	739	815	170
22	Nagpur	18233	9117	4565	5033	181
23	Total Maharashtra	557217	278609	188719	208063	134
24	Other Than Mumbai	255846	127923	55438	61120	209

Assumption- It is assumed that, without revision of rates, the property tax receipts would show an annual growth rate of 5%.



## Annexure E

### Collection of Profession Tax (in crore of Rupees)

District	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
<b>Mumbai Division</b>					
Mumbai	355.65	367.7	386.4	384.65	418.21
<b>Thane Division</b>					
Thane	57.15	61.61	70.56	70.71	75.26
<b>Ghatkoper Division</b>					
Raigad	17.23	16.84	17.93	17.21	18.08
<b>Pune 1 Division</b>					
Pune	99.92	103.08	105.62	112.26	125.3
<b>Pune 2</b>					
Solapur	21.8	22.31	21.68	21.4	22.74
<b>Aurangabad Division</b>					
Aurangabad	21.89	22.09	22.65	22.37	23.96
Beed	8.98	10.19	10.18	10.18	10.94
Jalna	6.29	6.51	6.68	6.4	6.65
Parbhani + Hingoli	9.61	10.33	10.31	10.28	10.31
Nanded	12.84	14.38	14.39	14.25	14.08
Latur	9.22	9.76	10.27	10.18	10.55
Usmanabad	6.86	6.87	7.09	6.94	6.94
<b>Kolhapur Division</b>					
Kolhapur	26.3	27.3	28.32	27.88	29.32
Satara	18.41	18.72	18.47	18.12	18.13
Sangli	16.25	16.46	16.71	15.99	16.66
Ratnagiri	11.41	12.05	11.34	10.88	10.99
Sindhudurg	6	5.99	6.3	6.04	6.11
<b>Nashik Division</b>					
Nashik	37.86	39.5	40.47	39.69	40.93
Dhule + Nandurbar	13.29	14.24	15.63	14.98	15.39
Jalgaon	19.71	21.89	22.38	24.71	25.52
Ahmednagar	21.55	25.24	25.94	22	22.04
<b>Nagpur Division</b>					
Nagpur	not available	not available	53.27	53.18	55.44
Amravati	not available	not available	15.28	14.98	15.48
Buldhana	not available	not available	10	9.54	9.72
Akola	not available	not available	9.97	9.61	9.89
Washim	not available	not available	3.35	3.28	3.46
Yavatmal	not available	not available	11.82	12.23	12.01
Wardha	not available	not available	7.54	7.55	7.75
Gondia	not available	not available	4.65	3.52	4.71
Bhandara	not available	not available	6.68	6.58	6.66
Chandrapur	not available	not available	20.82	20.06	20.42
Gadchiroli	not available	not available	4.99	4.67	5.77
<b>Total</b>			<b>1017.69</b>	<b>1012.32</b>	<b>1079.42</b>

**NOTE** 1) Separate figures of tax collection in respect of RC & EC are not available for Kolhapur & Nashik Divns

2) The A.G. figures for the State for the two years 2003-04 and 2004-05 are Rs. 1018.97 crore and Rs. 1084.02 crore respectively. Immediate reconciliation is not possible.

**Annexure F**  
**MAHARASHTRA STATE**  
**Receipt Statement for 2000 to 2005 (B.S.T. & M.S.T.)**

(Rs. In Crore)

YEAR	B.S.T.	M.S.T.	TOTAL
2000-01	7232	3004	10236
2001-02	6729	3282	10011
2002-03	7877	3867	11744
2003-04	9481	3478	12959
2004-05	11769	4950	16719
2005-06*	11435	5705	17140
CAGR (2001-05)	12.95%	13.30%	13.05%
Compounded Annual Growth Rate CAGR (2001-06)	9.60%	13.69%	10.86%

\*Note:- The figures for 2005-06 are not yet certified by A.G. office Mumbai.  
All the figures are net of refunds

## Target 2006-07

Act	MVAT	MST	Total
TARGET (Rs. in Crore)	16912	6832	23744

## ANNERURE G

### Reduction of Octroi to half its present level

Sr. No.	Name of the Corporation	Projected Octroi Revenue for 06-07	Percent of total octroi receipts	50% of the projected Octroi revenue for 06-07	Projected profession Tax Revenue at current tax base and tax rate	Compensation through levy of 4% tax on Motor spirits & additional VAT on other goods	Compensation as percentage of total revenue from levy of 4% tax on Motor spirits and additional VAT
1	2	3	4	5	6	7	8
1	Mumbai	301371	54.08	150686	45350	105336	57.32
2	Thane	25833	4.64	12917	5256	7660	4.17
3	Kalyan-Dombivli	5612	1.01	2806	2460	346	0.19
4	Bhivandi-Nizampur	8644	1.55	4322	1019	3303	1.80
5	Ulhasnagar	7536	1.35	3768	805	2963	1.61
6	Mira-Bhyander	3948	0.71	1974	885	1089	0.59
7	Navi Mumbai	11239	2.02	5619	1437	4182	2.28
8	Pune	44350	7.96	22175	10584	11591	6.31
9	Pimpri-Chinchwad	57491	10.32	28746	4193	24552	13.36
10	Solapur	7152	1.28	3576	1735	1841	1.00
11	Aurangabad	9006	1.62	4503	1818	2685	1.46
12	Nanded	2195	0.39	1098	897	200	0.11
13	Kolhapur	5461	0.98	2731	1516	1214	0.66
14	Sangli	3013	0.54	1507	1364	142	0.08
15	Nashik	27780	4.99	13890	3366	10524	5.73
16	Malegaon	2809	0.50	1405	1279	126	0.07
17	Dhule	1708	0.31	854	711	143	0.08
18	Jalgaon	3466	0.62	1733	768	965	0.53
19	Ahmednagar	2384	0.43	1192	641	551	0.30
20	Nagpur	18233	3.27	9117	6410	2706	1.47
21	Amravati	5254	0.94	2627	1373	1254	0.68
22	Akola	2762	0.50	1381	1000	381	0.21
	<b>Total</b>	<b>557246</b>	<b>100.00</b>	<b>278623</b>	<b>94868</b>	<b>183755</b>	<b>100.00</b>

Note: Expected revenue in 2006-07 from 4% tax on Motor Spirits and Additional VAT at the rate of 10% of the existing VAT rates .  
on other goods is estimated to yield Rs. 1800 crore